STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Northern Illinois Gas Company d/b/a Nicor Gas Company	)	
	)	Docket No. 08-0363
Proposed general increase in rates, and revisions to other terms and conditions of service	)	

Rebuttal Testimony of

ROBERT R. MUDRA, CFA

Director – Rates and Financial Analysis
Nicor Gas Company

September 25, 2008

Nicor Gas Ex. 29.0

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I. INTRODUCTION AND WITNESS QUALIFICATIONS

A. WITNESS IDENTIFICATION

Q. Please state your name and business address.

A. Robert R. Mudra, Northern Illinois Gas Company, 1844 Ferry Road, Naperville, Illinois 60563.

Q. By whom are you employed and in what capacity?

A. I am employed by Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas" or the "Company") as Director of Rates and Financial Analysis.

Q. Are you the same Robert R. Mudra that provided direct testimony in this matter?

A. Yes.

Q. What are the purposes of your rebuttal testimony?

A. The purposes of my rebuttal testimony are as follows:

(1) To respond to the direct testimony of Illinois Commerce Commission (the "Commission" or "ICC") Staff ("Staff") witnesses Dianna Hathhorn (Staff Ex. 2.0), Burma C. Jones (Staff Ex. 3.0), Peter Lazare (Staff Ex. 7.0), Christopher L. Boggs (Staff Ex. 8.0), David Sackett (Staff Ex. 11.0), and David Brightwell (Staff Ex. 13.0); Attorney General and Citizens Utility Board ("AG/CUB") witness Scott J. Rubin (AG/CUB Exs. 2.0 and 3.0); Illinois Industrial Energy Consumers ("IIEC") witness Dr. Alan Rosenberg (IIEC Ex. 1.0); Constellation NewEnergy, Inc. ("CNE") witnesses Darcy A. Fabrizius (CNE Ex. 1.0) and Lisa A.

Rozumialski (CNE Ex. 2.0); and Vanguard Energy ("Vanguard") witness Neil Anderson (VES Ex. 1.0);

(2) To present revisions to proposed tariff sheets filed by Nicor Gas in this proceeding on April 29, 2008; and

(3) To present the terms of a Memorandum of Understanding reached between Nicor Gas and Interstate Gas Supply of Illinois, Inc. and Dominion Retail, Inc. (collectively known as the Customer Select Gas Suppliers ("CSGS")) regarding the Company's Customer Select program.

Q. Please summarize the major issues and subjects that you will address in your rebuttal testimony.

A. I will discuss the Company's proposed rate design and transportation services and elements as supported or altered by the above-mentioned witnesses.

First, I will cover proposals made regarding to Nicor Gas' Embedded Cost of Service Study ("ECOSS"), which was prepared, presented and updated for Nicor Gas by independent expert Alan Heintz. (*See* Heintz Dir., Nicor Gas Exs. 15.0, 15.1; Heintz Reb., Nicor Gas Exs. 30.0-30.3). The ECOSS was used to develop Nicor Gas' proposed Storage Banking Service charge. Second, I will discuss the positions and proposals, and commentary, made by the above-mentioned witnesses regarding revenue allocation, rate design, and proposed changes to existing riders and terms and conditions. Third, I will discuss mechanical revisions to the Company's proposed five riders. Finally, I will discuss the settlement Nicor Gas reached with certain Intervenors relating to Nicor Gas' Customer Select program.

B. ITEMIZED ATTACHMENTS

Q. Are you sponsoring any attachments to your rebuttal testimony?

A. Yes. I am sponsoring, and have attached hereto, several exhibits:

- Nicor Gas Exhibit 29.1 shows a "clean" copy of those tariff sheets that Nicor Gas has revised and is now proposing to be approved by the Commission.

- Nicor Gas Exhibit 29.2 shows the same tariff sheets but in legislative format indicating the changes from Nicor Gas' original filing.

- Nicor Gas Exhibit 29.3 is the Memorandum of Understanding ("MOU") reached between Nicor Gas and Interstate Gas Supply of Illinois, Inc. and Dominion Retail, Inc. The MOU sets forth the resolution of issues between Nicor Gas and CSGS.

II. EMBEDDED COST OF SERVICE STUDY

Q. Does Nicor Gas propose any changes to the methodology used in its ECOSS as presented by Mr. Heintz in his direct testimony (Nicor Gas Ex. 15.1)?

A. No. Nicor Gas' ECOSS was prepared in the same manner as ordered by the Commission in Nicor Gas' last rate case, Docket No. 04-0779 ("2004 Rate Case"). No intervening party has proposed a change that is acceptable to Nicor Gas.

Q. Has Staff witness Mr. Lazare reviewed the Company's ECOSS and does he find it reasonable to use for ratemaking?

A. Yes. (*See* Lazare Dir., Staff Ex. 7.0, 24:523-25:527). Mr. Lazare agrees with the Company's proposed ECOSS; however, he recommends that the Commission direct the Company in its next rate filing to prepare an allocator for gas service lines that reflects the level of investment in services by customer class. (Lazare Dir., Staff Ex. 7.0, 28:594-96).

Q. Does the Company have concerns about Mr. Lazare's proposal?

A. Yes. While the Company is not opposed to evaluating the use of an allocation factor based on the amount of services investment by customer class, it is concerned that Mr. Lazare requests the Commission to direct the Company to prepare or utilize such an allocation factor in its next rate filing without first evaluating the results or impacts on customers which may be associated with utilizing such an allocation factor. Therefore, the Company recommends that it should be directed to evaluate the use of an allocation factor based on the amount of services investment by customer class and it would agree to present its conclusions in its pre-filed testimony during its next rate case.

Q. IIEC witness Dr. Rosenberg proposes to reallocate volume related costs in the ECOSS based upon the main size allocation factors from the Company's Modified Distribution Main ("MDM") study. (Rosenberg Dir., IIEC Ex. 1.0, 6:107-7:129). Does Nicor Gas accept Dr. Rosenberg's proposal?

A. No. Nicor Gas has presented its ECOSS consistent with the Commission's order in the 2004 Rate Case. Nicor Gas has already proposed to move the residential customer class' revenue allocation closer to its cost of service (to approximately 97.5 percent) based on that methodology. Nicor Gas recognizes that the proposed new allocation method would also serve to further increase residential rates and decrease commercial and industrial rates more than Nicor Gas has proposed at this time. As with Mr. Lazare's proposal to allocate service pipe costs differently in the next ECOSS, Nicor Gas would also agree to review Dr. Rosenberg's proposal and present its conclusions in its pre-filed testimony during the next rate case.

Q. Dr. Rosenberg also claims that Nicor Gas' ECOSS should be corrected to assign storage cost responsibility to Rates 74, 76 and 77 based on revenues instead of allocating these costs to these three classes, which treats them the same as other classes. (Rosenberg Dir., IIEC Ex. 1.0, 13:241-60). What is the Company's response to Mr. Rosenberg's argument?

A. Nicor Gas believes Dr. Rosenberg's concern is really a rate design issue which I will address later in this testimony. Specifically, instead of the standard practice of costs being recovered by revenues, Dr. Rosenberg's proposal would have revenues drive costs. Because Nicor Gas has already properly removed or "unbundled" the cost of the Storage Banking Service ("SBS") from Rates 74, 76 and 77, no further adjustment is necessary. Customers on Rates 74, 76 and 77 choose to purchase varying degrees of SBS service from year to year and their changing preferences should not be utilized as a basis for assigning costs.

The costs for storage in the ECOSS presented by Mr. Heintz have been allocated to rate classes in the same manner as the previous two ECOSSs submitted by Nicor Gas and accepted by the Commission. Importantly, Dr. Rosenberg did not challenge the allocation method in either of Nicor Gas' previous two rate cases. Nicor Gas believes that storage costs have been properly allocated in the current study and are consistent with the Commission's past orders.

III. REVENUE ALLOCATION

Q. Is Nicor Gas proposing any changes to the method of allocating its revenue requirements among its respective rate classes?

A. No. Mr. Lazare agrees with Nicor Gas' proposal to limit the residential increase to 97.5 percent of the Company's cost of service and allocate the remaining revenues among the other rate classes (with the exception of contract service Rates 17 and 19) based on their percentage share of revenue requirements. (Lazare Dir., Staff Ex. 7.0, 29:618-20, 29:633-30:653). Indeed, the only witness to present testimony opposing Nicor Gas' proposed allocation method is IIEC witness Dr. Rosenberg, who claims that there is no support for the allocation of 97.5 percent of costs to the residential class. (Rosenberg Dir., IIEC Ex. 1.0, 8:160-11:219).

Q. Dr. Rosenberg claims that Nicor Gas neglects the indications of its ECOSS by extending a Rate 1 subsidy from the 2004 Rate Case and causing an inordinately large increase to Rate 76 and Rate 77. (Rosenberg Dir., IIEC Ex. 1.0; 2:30-35). What is the Company's response to Mr. Rosenberg's argument?

A. First, Nicor Gas has allocated its revenue requirement in what it believes to be the spirit of the Commission's order in the 2004 Rate Case by applying gradualism to the residential rate class but still moving it closer to full cost recovery. In the 2004 Rate Case, the residential class was set by Commission order at 95 percent of its cost of service and Nicor Gas is proposing to move it to 97.5 percent of its cost of service. Relatively speaking, Rate 76 and Rate 77 customers are better off than if Nicor Gas were to continue with the 95 percent cost recovery from residential customers. While Nicor Gas believes a further movement of the residential rate toward cost is appropriate, this movement should be limited for purposes of this proceeding as described above. In the 2004 Rate Case, the Commission supported the Company's movement of the residential

rate toward cost on a limited basis. Nicor Gas believes that it will be appropriate to allocate 100 percent of the cost of service to the residential class in its next rate case.

Second, a review of the rate impact exhibits attached to my direct testimony (*see* Nicor Gas Ex. 14.9, pages 7 and 8) shows that the magnitude of the proposed increase is not onerous for Rate 76 and Rate 77 customers on a total bill basis (*i.e.*, including gas costs). For example, a Rate 76 customer using 100,000 therms per month would experience an increase of 1.6 percent and a small-use Rate 77 customer using 500,000 therms per month would see a 2.3 percent increase. Both of these figures are based on the total natural gas bill (*i.e.*, delivery and commodity). In any event, Nicor Gas' proposed rate design for Rates 76 and 77 fairly recovers the cost of service from these customer classes. Furthermore, as shown on the rate impact exhibits, base rates at the Company's proposed rates would be only 4.6 percent of a Rate 76 customer's total bill and only 5.1 percent of a Rate 77 customer's total bill (at a 50 percent load factor).

Finally, Nicor Gas witness O'Connor discusses the volatility of natural gas prices. Natural gas prices can change 5, 6 and 7 cents per therm in a day. Nicor Gas' rate increase request for Rate 76 customers is 1.23 cents per therm and for Rate 77 customers is 1.30 cents per therm. Therefore, industrial customers can face greater price changes each day. The increase Nicor Gas is proposing pales in comparison to such price changes. Nicor Gas' proposed increase on a cents per therm basis is reasonable for Rate 76 and Rate 77 customers.

Q. If the Commission were to order a different revenue increase than that proposed by Nicor Gas, how would Nicor Gas propose to recover the revenue change?

A. Nicor Gas would use the same method as it employed for its original request. Based on the final ECOSS it would allocate 97.5 percent of the residential class' cost of service to that class and recover the remaining revenue deficiency from the other rate classes (except contract service Rates 17 and 19) based on their portion of the cost of service.

Q. Do you believe that Nicor Gas' proposed revenue allocation results in just and reasonable rates to its customers?

A. Yes.

IV. NICOR GAS' RATE DESIGN

Q. Does Nicor Gas propose any changes in its methodology for designing its rates for the respective rate classes?

A. No.

A. RATE 1 DESIGN

Q. What rate design issues were discussed by Staff witness Mr. Lazare?

A. Mr. Lazare raised several issues with respect to Nicor Gas' rate design. First, he proposes that monthly customer charges only recover customer costs as determined by the ECOSS prepared for Nicor Gas. Second, he suggests that Nicor Gas should replace its declining-block rate structures with a flat distribution structure, which would result in a flat distribution charge for Rate 1 – Residential Service, Rate 4 – General Service and Rate 74 – General Transportation Service. Third, in the event the Commission does not accept his proposal for a flat distribution rate design, Mr. Lazare proposes an alternative declining block rate design. Fourth, Mr. Lazare asserts that his proposed rates are better

than those proposed by Nicor Gas from a conservation standpoint. Finally, Mr. Lazare discusses the merits and drawbacks of the Straight-Fixed Variable ("SFV") rate design.

Q. With respect to Mr. Lazare's first proposal that the monthly customer charge should only recover customer costs, what is Nicor Gas' position?

A. Nicor Gas strongly disagrees with Mr. Lazare's proposal because it is inconsistent with the Commission's recent actions. After reviewing the Commission's Order in The Peoples Gas Light & Coke Company and North Shore Gas Company recent rate cases, consolidated Docket Nos. 07-0241 and 07-0242 ("Peoples Gas Rate Case"), it seems that Mr. Lazare's position is diametrically opposed to the Commission's current policy. Instead of limiting the recovery of costs through the monthly customer charge, the Commission has authorized the recovery of more fixed costs through fixed charges. Moreover, the Commission noted that increasing fixed cost recovery was a goal in the Peoples Gas Rate Case. (Order at 250-53). Nicor Gas' proposal builds on what the Commission approved in the 2004 Rate Case and follows these recent Commission rulings.

Q. How does Nicor Gas' proposed monthly customer charge for residential service of $13.55 compare with those of other Illinois utilities?

A. The $13.55 is in line with North Shore's $13.50 and Peoples' $15.50. With approval of Nicor Gas' proposed $13.55 residential monthly customer charge, about 76 percent of Illinois' residential gas users would have a monthly customer charge between $13.00 and $16.00. While Ameren has yet to file new monthly customer charges for its utilities, Nicor Gas believes that their charges will also be in line with or higher than Nicor Gas'

request. If this is the case, then about 97 percent of Illinois' residential gas users would have a monthly customer charge between $13.00 and $16.00.

Q. In the event that the Commission approves a Rate 1 revenue requirement that is less than $465,000,000, at what level should the Rate 1 Monthly Customer Charge be established?

A. The Rate 1 Monthly Customer Charge should be established at no less than $13.55 per month, as originally proposed by the Company, with any reduction in the Rate 1 revenue requirement lowering the volumetric charges. The ECOSS indicates that approximately 94 percent of the Rate 1 revenue requirement is composed of fixed, non-volumetric costs (*see* Nicor Gas Exhibit 15.1, Schedule F, page 1, Line 7) and therefore up to 94 percent of the Rate 1 revenue requirement could appropriately be recovered through the Monthly Customer Charge. Nicor Gas' proposal of a $13.55 per month Monthly Customer Charge is in line with other Illinois utilities charges and will gradually recover more fixed costs through fixed charges.

Q. With respect to Mr. Lazare's proposals to eliminate declining block rates and replace them with flat distribution rates, what is Nicor Gas' position?

A. Nicor Gas opposes such a change because it would increase winter bills, decrease summer bills and increase the Company's exposure to weather. It should be noted that Nicor Gas is proposing a reduction from three blocks to two blocks for its residential service distribution rates. Nicor Gas believes this represents a gradual movement to the flat distribution rate proposed by Mr. Lazare. It is Nicor Gas' intent to continue moving towards a flat distribution rate for its residential customers. Nicor Gas believes that if

more fixed costs are recovered through fixed charges, it may be appropriate to reduce the number of distribution blocks for residential service. However, it would be inappropriate to move to a flat charge under the proposed Rate 1 design, because a large proportion of the Company's fixed costs are still being recovered through the Rate 1 volumetric distribution charges.

Q. Please respond to Mr. Rubin's claims that Nicor Gas is proposing a fairly radical restructuring of its residential rate and his concerns over the impacts on residential customer bills. (Rubin Add. Dir., AG/CUB Ex. 3.0, 2:42-54, 3:62-65).

A. In its direct case, Nicor Gas illustrated that the average annual residential customer bill impact would be approximately $55.48 per year or approximately $4.62 per month. (*See* Nicor Gas Ex. 14.6). Nicor Gas also provided Schedule E-9, Bill Comparisons at Proposed Rates, as required by Part 285 filing requirements which illustrate bill impacts at different monthly usage levels. In response to Staff Data Request CB 1.01, Nicor Gas provided a bill comparison report for the smallest 1% of residential gas consumers, for those at the 20th percentile, the 50th percentile, the 80th percentile and the 100th percentile or largest residential customers based on annual volume. The results of that analysis, summarized below in Table 1, indicate that essentially all of Nicor Gas' residential customers would experience close to the average annual increase of $55.48 per customer per year and $4.62 per month. Therefore, Nicor Gas' proposed residential rate design is reasonable, based on cost of service, produces reasonable bill impacts and should be approved by the Commission.

Table 1: Proposed Rate 1 Design – Summary of Residential Bill Impacts

Rate 1 - No Heat	Percentile Rank	Numbers of Customers	Percent of Customers	Annual Increase	Monthly Increase
	1%	3,623	0.21%	$ 61.58	$ 5.13
	20%	13,853	0.79%	$ 59.99	$ 5.00
	50%	5,401	0.31%	$ 56.81	$ 4.73
	80%	1,934	0.11%	$ 59.77	$ 4.98
	100%	432	0.02%	$ 54.79	$ 4.57
		25,243	1.45%		

Rate 1 - Heat	Percentile Rank	Numbers of Customers	Percent of Customers	Annual Increase	Monthly Increase
	1%	69,171	3.97%	$ 57.37	$ 4.78
	20%	517,117	29.65%	$ 55.80	$ 4.65
	50%	550,199	31.55%	$ 56.15	$ 4.68
	80%	409,138	23.46%	$ 56.31	$ 4.69
	100%	173,295	9.94%	$ 54.80	$ 4.57
		1,718,920	98.55%		
		1,744,163	100.00%		

Q. Mr. Rubin has proposed that the rate increase for Nicor Gas' residential class be established using a straight 12.2 percent to each rate charge, monthly customer charge and the charges for the three rate steps. (Rubin Add. Dir., AG/CUB Ex. 3.0, 18:374-19:388). What is Nicor Gas' position on this proposal?

A. Nicor Gas opposes Mr. Rubin's proposal. Nicor Gas' proposed rate design gradually begins to recover more of its fixed costs through fixed monthly customer charges and Mr. Rubin's overly simplified approach does not recognize the importance of this issue. As shown in Table 1 above, the magnitude of the increases are reasonable ($4.57 to $5.13 per month) and are evenly spread to all residential customers while keeping its tail block charge unchanged. Mr. Rubin's recommendation to increase the tail block charge will make customers more subject to cost increases in the winter months when use is at its highest. Nicor Gas' proposed rate design levels out customer delivery charges and therefore reduces the strain on customers during the winter season. Finally, Mr. Rubin's

proposal for an equal percentage increase in the monthly customer charge and in each of the existing rate steps does not recognize that Nicor Gas' cost of serving residential customers is largely fixed cost and not driven by volume.

B. CONSERVATION AND RATE 1 DESIGN

Q. Please comment on Mr. Lazare's proposed rate designs with respect to their impact on conservation.

A. It appears that Mr. Lazare assumes that the higher per therm delivery charges under his rate proposals would encourage customers to conserve more natural gas. (*See* Lazare Dir., Staff Ex. 7.0, 41:887-901).

Q. Does Nicor Gas believe that it is appropriate to establish higher distribution charges for the purpose of encouraging conservation?

A. No. First, Nicor Gas contends that fixed costs should be more closely associated with fixed charges and not with volumetric charges. This provides customers with accurate price signals for delivery service and provides Nicor Gas a reasonable opportunity to recover its costs. Second, Nicor Gas has proposed Rider EEP to encourage customer conservation and Rider VBA to enable Nicor Gas to recover its fixed distribution costs regardless of changes in weather or conservation. Finally, Nicor Gas believes that when analyzing a conservation investment opportunity, customers properly consider their total annual energy costs and annual savings from the conservation project as compared to the total investment cost of conservation projects.

C. RATE 1 - ALTERNATIVE STRAIGHT FIXED VARIABLE ("SFV") DESIGN

Q. Has Nicor Gas proposed to move directly to a SFV rate design for residential customers?

A. No. Although Nicor Gas believes that a SFV rate design is appropriate, it proposes to move gradually over time to a SFV rate design for residential service and utilizes Rider VBA to meet this objective. Nicor Gas' proposed residential rate design gradually increases residential monthly customer charges to recover a greater proportion of fixed costs through fixed charges and does not achieve a full SFV rate design. In combination with Rider VBA, the proposed rates will provide the Company an opportunity to recover its remaining fixed costs, which are currently embedded with its volumetric distribution charges, despite changes in weather or conservation.

In the alternative, if the Commission prefers not to implement Rider VBA, Nicor Gas proposes to utilize a SFV residential rate design to recover more of its fixed costs through higher Monthly Customer Charges.

Q. In Mr. Lazare's discussion on SFV rate design, he discusses several purported disadvantages of using a SFV rate design. (Lazare Dir., Staff Ex. 7.0, 34:734-47). Please discuss the consistency issue between how costs are caused and how revenues are collected as purported by Mr. Lazare.

A. Mr. Lazare states that a SFV rate design "could raise a consistency issue between how costs are caused and how revenues are collected." (Lazare Dir., Staff Ex. 7.0, 37:807-08). Specifically, Mr. Lazare's concern is that the fixed SFV monthly customer charge of $18.66 would also recover Nicor Gas' fixed distribution system main costs. (*Id.*, 37:808-

11). His concern is misplaced. Fixed distribution main costs are by their nature fixed, and consequently should not be recovered via volumetric charges. Nicor Gas' approach is consistent with cost causation principles because it is directly supported by the actual use of Nicor Gas' distribution mains by residential Rate 1 customers.

Approximately 82 percent of all Rate 1 customers are connected to Nicor Gas' standard, high-pressure 2" diameter natural gas distribution main network and 90 percent are served by a 2" diameter main or less. (*See* Table 2 below). This main investment is a fixed cost that is appropriately recovered through a fixed charge to all residential customers.

Additionally, Mr. Lazare raises the issue that, under SFV rate design, a customer in a 1,000 square-foot home would pay the same amount of distribution mains cost per customer per month as someone living in a 4,000 square-foot home. (Lazare Dir., Staff Ex. 7.0, 37:811-15). However, regardless of the size of home a customer has, it is highly likely, as evidenced in the preceding paragraph, that both customers are connected to the same size 2" diameter gas main. It is therefore reasonable to allocate this fixed cost to all Rate 1 customers on an equal per customer basis within the monthly customer charge.

Rather than just recovering "customer" charges within the Monthly Customer Charge as Mr. Lazare proposes, the Monthly Customer Charge should also recover the fixed costs of the directly allocated distribution mains costs.

Q. Please discuss Mr. Lazare's concern that a SFV-based rate design would create a conflict with the Company's beliefs concerning cost causation for distribution mains costs.

A. Mr. Lazare claims that a SFV rate design "conflicts with the Company's beliefs concerning cost causation for distribution costs." (Lazare Dir., Staff Ex. 7.0, 37:818-829). Mr. Lazare contends that a SFV rate design would ignore relative demands in recovering mains costs from residential customers and instead, charge each customer the same for those mains costs incorporated into the SFV-based design. On the contrary, a SFV rate design is even more consistent with the nature of recovering Nicor Gas' fixed distribution mains costs from its residential customer class. The Company has included the impact of peak demands in its ECOSS and allocated an appropriate amount of distribution mains cost to the residential class.

As I noted in my direct testimony, "the costs associated with delivering natural gas to customers are largely fixed costs, which are a product of Nicor Gas' fixed investment in distribution facilities (gas main, gas services, meters, regulators service trucks, equipment, etc.)" (Mudra Dir., Nicor Gas Ex. 14.0, 14:319-21). Furthermore, these fixed costs should be recovered through fixed charges, rather than volumetric distribution charges.

Q. Does Mr. Lazare contend that smaller customers would have concerns about the fairness of the SFV design because they would be required to pay the same as larger customers for certain plant components despite Mr. Lazare's contention that they have a smaller contribution to these costs? (Lazare Dir., Staff Ex. 7.0, 39:844-47).

A. Yes. However, it is incorrect to assume that Nicor Gas incurs materially different levels of fixed investment costs for residential customers based on usage. In fact, a majority of Nicor Gas' residential customers are served by similarly-sized gas mains, gas meters and service lines. As shown on Table 2, below, a recent survey of Nicor Gas' data revealed

that approximately 82 percent of Nicor Gas' residential Rate 1 customers are served from a 2" diameter gas main and 83 percent are served by one of two standard gas meters. Furthermore, 95 percent of sampled residential service lines were one of only three standard sizes: ½" inch, 5/8" inch or ¾ inch in diameter. If Nicor Gas were to break this population down into "small", "medium" and "large" annual gas consumption levels of less than 500 therms per year, 500 to 1,500 therms per year and those customers using over 1,500 therms per year we would find the same general proportions of customers using the same types of gas facilities as shown below in Table 2.

Table 2 – Facilities Serving Residential Customers

Rate 1 - Residential Customers

	Main Size	Meter Size			Service Size			
Annual Therm Consumption	2"	175	250	Total	1/2"	5/8"	3/4"	Total
Less than 500 Therms/Year	78%	33%	45%	78%	34%	36%	17%	87%
500 to 1,500 Therms/Year	84%	43%	43%	86%	38%	39%	19%	96%
Over 1,500 Therms/Year	81%	38%	41%	79%	39%	37%	17%	93%
System-Wide Total	82%	41%	43%	84%	38%	39%	18%	95%

Therefore, it is important to realize that, regardless of annual load, Nicor Gas is using very similar facilities to serve a substantial majority of its residential customers. Because Nicor Gas does not have demand meters for its residential customers, it cannot efficiently charge demand-based rates for residential customers.

Q. Mr. Lazare contends that recovering Nicor Gas' fixed costs of serving customers through a SFV rate design would send confusing price signals to customers. (Lazare Dir., Staff Ex. 7.0, 38:831-42). Do you agree?

A. No. In my opinion, a fixed monthly price signal would be more accurate than a seasonal price signal because Nicor Gas' fixed investment in gas mains, service lines and meters are available to serve customers' needs 365 days per year. Nicor Gas has allocated an

appropriate amount of demand costs to the residential class and the similar level of fixed investment cost necessary to provide that capacity could be allocated on a per customer per month basis. Gas supply cost is the "major" price signal for customers. Finally, the smoothing effect of spreading costs evenly over 12 months lowers winter bills.

Q. Mr. believes that a SFV rate design would reduce ratepayers' incentive to conserve gas. (Lazare Dir., Staff Ex. 7.0, 34:749-37:803). What is Nicor Gas' response to Mr. Lazare's concern about energy efficiency?

A. The price signals received from a SFV rate design would have a neglible effect on ratepayers' incentive to conserve gas.

Nicor Gas has proposed Rider EEP in this proceeding and offers its support for programs and initiatives to assist ratepayers in conserving the use of natural gas. Conservation is an important public policy issue. However, Mr. Lazare's objection to a SFV rate design on this point has little merit, since a SFV rate design would have a neglible impact on a customers' incentive to conserve natural gas.

Mr. Lazare has "missed the forest for the trees" since natural gas commodity prices are over 16 times higher than Nicor Gas' volumetric natural gas distribution service costs. For example, a residential customer who conserves 10 percent of their annual consumption or approximately 100 therms per year (1,000 therms/year X 10 percent = 100 therms) would save approximately $85 per year assuming a commodity gas cost of $.85 per therm.

Under Nicor Gas' proposed, and unchanged, Rate 1 tail-block distribution charge of $.0519 per therm, residential customers would save an additional $5.19 by reducing their consumption by 100 therms. A SFV rate design, which allows for recovery of only

the volume-related costs through a single flat distribution charge of $.0147 per therm, would also provide the customer with $1.47 of savings. It is clear that the customer has an overwhelming incentive to reduce consumption which is driven primarily by commodity price signals, which have been high and volatile.

It is unrealistic to believe that a customer's incentive to reduce natural gas consumption would be diminished under a SFV rate design. Furthermore, even at Mr. Lazare's proposed 9.9 cents per therm distribution charge, the customer would only save an additional $4.71 per year over Nicor Gas' proposed tail block charge.

Q. In your opinion, does the American Gas Association's endorsement letter of the National Action Plan for Energy Efficiency (Lazare Dir., Staff Ex. 7.0, 36:787-89), suggest that revenue decoupling or SFV rate designs are not acceptable methods to enable utilities to fully support conservation programs?

A. No. It is widely recognized that volumetric rate designs contain a financial disincentive for gas utilities to promote conservation. Although Mr. Lazare's approach is to raise distribution charges, which are insignificant relative to gas commodity costs, to encourage conservation other approaches like revenue decoupling, SFV rate design and energy efficiency riders can be effectively used to encourage conservation.

Q. Please respond to Mr. Lazare's assertion that a SFV rate design "could make it more difficult for ratepayers in financial distress to control their natural gas costs." (Lazare Dir., Staff Ex. 7.0, 39:849-855).

A. First, natural gas commodity costs can typically represent as much as 80 percent of the customer's total annual natural gas bill. Ratepayers, in financial distress or otherwise,

should therefore embrace energy conservation as the primary method to control their natural gas commodity costs and this will yield significant economic value.

Secondly, Mr. Lazare's rate design policy motivation appears to be that recovery of a utility's fixed cost of service should be more within the control of customers and more dependent on their volumetric usage levels despite the fact that these costs are fixed and do not vary by volume. Consequently, he recommends lower fixed monthly customer charges and higher volumetric distribution charges. However, proper rate design should be based on cost-causation principles and not designed to put the utility at even more risk of not recovering its fixed cost of delivery service. A SFV rate design would properly recover a utility's revenue requirement based on cost of service principles. Finally, implementation of a SFV rate design, by smoothing cost recovery out over each month reduces the burden of high winter gas charges.

D. RATE 4 AND RATE 74 DESIGN

Q. Does Nicor Gas believe that the declining block rate design for Rate 4, General Service and Rate 74, General Transportation Service be replaced with a flat distribution rate design?

A. No. It may be an appropriate rate design for Rate 1 residential customers to have flat distribution rates if all fixed costs are permitted to be recovered through the Customer Charge because of the relative homogeneity of that class of customer. Residential customers are generally served from a comparably sized gas meter, regulator, service line and main size. Therefore, the investment cost to serve an overwhelming majority of residential customers is very similar. However, customers served under Rates 4 and 74 are not as homogenous. These customers range in size from very small store front

companies with only a water heater and using 30 therms a month to large manufactures using 65,000 therms a month. The Company further differentiates between these customers by using three different levels of Monthly Customer Charges based on meter size and its existing three-step declining block rate structure. This rate design should not be changed because it accurately reflects the load profile of the customers on the rate and can be reasonably expected to recover the Company's revenue requirement.

Finally, it should be noted that the Commission had similar proposals in the 2004 Rate Case and properly rejected them. Nothing has changed since then and no witness has presented any additional evidence showing that the Commission erred in maintaining Nicor Gas' rate design.

Q. What is Nicor Gas' position with respect to Mr. Lazare's alternative rate design for Rate 1, Residential Service and Rates 4 and 74?

A. The rate design proposed by Nicor Gas is superior to Mr. Lazare's alternative. For Rate 1, Mr. Lazare employs the same number of blocks as Nicor Gas proposes but maintains an artificially low monthly customer charge. This results in a significant increase in charges to the two volumetric distribution charge blocks. A significant increase in the two blocks makes Nicor Gas more vulnerable to the impact of weather than it is currently and will greatly increase customers' bills during periods of cold weather. Mr. Lazare's flawed design improperly attempts to recover more fixed costs through volumetric charges. As noted above, the Commission's recent decisions go in the opposite direction of Mr. Lazare's proposals.

E. RATE 5 AND RATE 75 DESIGN

Q. VES witness Mr. Anderson, proposes that the annual therm threshold for applicability of Rate 5 – Seasonal Use Service and Rate 75 – Seasonal Use Transportation Service be increased to include customers whose annual usage is up to 1.5 million therms. (Anderson Dir., VES Ex. 1.0, 6:116-23). Does Nicor Gas agree with Mr. Anderson's proposal to increase the annual therm limitation?

A. No. The original limit of 250,000 therms per year was agreed to in a settlement between Nicor Gas and the intervening party representing seasonal use customers in the 2004 Rate Case. Additionally, Rates 5 and 75 are designed from a cost-allocation standpoint to be subsets of Rate 4 – General Service and its companion transportation rate, Rate 74. Rates 4 and 74 are not designed for customers using volumes as high as 1.5 million annual therms. Rates 4 and 74 are designed to serve customers using up to about 700,000 therms annually. Increasing the limit to 1.5 million therms per year complicates the ECOSS allocations by adding in potential customers from Rate 76, whose costs characteristics are significantly different than Rate 4 and Rate 74 customers. Moreover, when establishing Rates 5 and 75 in the 2004 Rate Case, Nicor Gas assumed that all 870 eligible customers would participate in the new rates. However, there has been minimal customer enrollment in Rates 5 and 75, which is demonstrated by the fact that fewer than 10 percent of the 870 eligible customers have elected to take service under these rates. As a result, the overestimating of the demand for seasonal use rates in the 2004 Rate Case caused Nicor Gas' final ECOSS in that case to incorrectly allocate costs between Rates 4, 5, 74 and 75. However, based on actual experience, Nicor Gas has now properly forecasted the numbers of Rate 5 and Rate 75 customers. Expanding enrollment

applicability now to include customers using up to 1.5 million therms annually, where few, if any, of these customers may subscribe to Rate 5 and 75 services, only serves to add inconsistencies to the Company's rate design and cost allocation principles.

Finally, Mr. Anderson has not provided any persuasive support showing the need to expand the limitation other than alleged inquiries from a few customers. The Commission should reject Mr. Anderson's proposal because there is a limited demand for the seasonal rates and any expansion would likely result in misallocation of costs to various rate classes in Nicor Gas' ECOSS.

Q. Do you believe that Nicor Gas has shown its proposed rate design to be just and reasonable?

A. Yes.

V. RECOVERY OF UNACCOUNTED FOR GAS AND STORAGE GAS LOSSES

Q. Staff witnesses Mr. Anderson (Anderson Dir., Staff Ex. 9.0, 15:278-96), Ms. Hathhorn (Hathhorn Dir., Staff Ex. 2.0, 33:826-64) and Mr. Sackett (Sackett Dir., Staff Ex. 11.0R, 25:512-31) express concerns about Nicor Gas' Unaccounted-For Gas Adjustment ("UFGA") and the 2 percent Storage Gas Loss adjustment ("2 percent Storage Gas Loss factor"). Which of their concerns are you addressing?

A. I am addressing the issue of how Nicor Gas recovers the costs associated with UFGA and the 2 percent Storage Gas Loss factor. Nicor Gas witness Gary Bartlett addresses issues relating to quantification of the 2 percent Storage Gas Loss factor in his rebuttal testimony (Bartlett Reb., Nicor Gas Ex. 19.0) and Nicor Gas witness James Gorenz

addresses accounting and cost allocation issues in his rebuttal testimony (Gorenz Reb., Nicor Gas Ex. 26.0).

Q. Please describe the UFGA and the 2 percent Storage Gas Loss factor.

A. The UFGA, which is currently 2.23 percent effective September 1, 2008 through August 31, 2009, represents Nicor Gas' total system-wide "Unaccounted-For Gas Adjustment" which represents the difference between the amount of gas Nicor Gas measures as being delivered into its system from all sources including Sales and Transportation customers (which is the sum of pipeline deliveries plus storage withdrawals and less storage injections) and the amount of gas that is ultimately delivered (metered) to customers. The UFGA calculation therefore properly computes the total proportion of physical gas losses across Nicor Gas' distribution system.

The 2 percent Storage Gas Loss factor is a subset of the system-wide UFGA which specifically relates to gas that is withdrawn from Nicor Gas' storage fields. Total Storage Gas Loss volumes associated with both Sales and Transportation customer withdrawals from storage are determined by multiplying total storage withdrawals by 2 percent.

Q. How has unaccounted for gas been recovered from Transportation customers?

A. Unaccounted for gas, of which storage gas losses are a component, is recovered in-kind from Transportation customers and are assessed based upon their deliveries to the Company's city gate. For example, if a Supplier wanted to deliver 1,000 therms to an end-user, it would need to deliver 1,022.3 therms (1,000 multiplied by 1.0223 which is 1 plus the 2.23 percent UFGA) to the Nicor Gas city gate in order for 1,000 therms to be credited to the customer's account.

Q. How is unaccounted for gas recovered from Sales customers?

A. Unaccounted for gas is recovered in two different fashions from Sales customers. Effective with the 2004 Rate Case, unaccounted for gas attributable to Storage Gas Losses (*i.e.*, 2 percent) is recovered through base rates and included in Account 823. All other unaccounted for gas attributable to Sales customers is recovered through Rider 6 (Gas Supply Costs).

Q. Do some Transportation customers also pay the Sales customer's portion of Storage Gas Losses (2 percent) within their base rates?

A. Yes. Customer Select participants are served under Rates 1, 4 and 5, which include the Sales customer's portion of Storage Gas Losses within base rates. Furthermore, Transportation customers served under Rates 4, 5 and 6 that transport under the provisions of Rider 25, Firm Transportation Service, also have the Sales customer portion of Storage Gas Losses included within their base rate charges. These rate classes are considered Sales service rates; however, customers can elect to take service under a Transportation rider, which then makes them Transportation customers.

Q. If, as mentioned above, some Transportation customer's base rates include the costs associated with the Sales customer portion of Gas Storage Losses, how are these charges removed from their bills?

A. Customer Select and Rider 25 Transportation customers receive a per therm credit that is equal to the cost of the Sales customers portion of Storage Gas Losses which is included in their base rates. The credit is part of the Transportation Service Credit ("TSC") that appears on their bills.

Q. How do customers served under Nicor Gas' traditional Transportation Rates 74, 75, 76 and 77 avoid being charged for the Sales' customers portion of Storage Gas Losses?

A. Transportation service rates are developed as companion rates to the Sales service rates. In determining the Transportation service rates, the value of the Sales customer portion of Storage Gas Losses is not included in the costs to be recovered from the respective rate class and, therefore, the final per therm charges are less than those of the companion Sales rate.

Q. Do you believe that Nicor Gas' methods used to recover the costs associated with the UFGA and 2 percent Storage Gas Losses are just and reasonable and follow previous Commission orders?

A. Yes. Nicor Gas' compliance filing for the 2004 rate case presented exhibits showing how the 2 percent Storage Gas Loss factor was credited to customers. Staff did not disagree with the methods used by Nicor Gas to recover these costs. Moreover, it is my belief that Nicor Gas' method of recovering the UFGA is consistent with methods used by other Illinois utilities and has not been challenged by Staff or other intervenors in the past.

VI. TERMS AND CONDITIONS

Q. Are you submitting revised tariff sheets showing the changes that Nicor Gas proposes to be made based on the Company's current rate proposals?

A. Yes. Nicor Gas Exhibit 29.1 is a "clean" copy of those tariff sheets that Nicor Gas has further revised and is now proposing to be approved by the Commission. Nicor Gas Exhibit 29.2 contains the same tariff sheets but in legislative format indicating the changes from Nicor Gas' original filing.

Q. With respect to other proposed Nicor Gas charges, Staff witness Mr. Boggs stated that he had not received supporting documentation from Nicor Gas for changes to specific charges and Terms and Conditions. (*See, e.g.*, Boggs Dir., Staff Ex. 8.0, 11:218-222, 12:234-37, 13:259-62, 14:277-80). What is the Company's response?

A. On August 15, 2008 and August 19, 2008, Mr. Boggs propounded Data Requests asking for supporting documentation for the changes to specific charges and Terms and Conditions. Nicor Gas sent the responses to both sets of Data Requests on August 25, 2008. Nicor Gas believes that Mr. Boggs will find the proposed Nicor Gas changes to be just and reasonable after consideration of the Company's Data Request responses.

Q. Staff witness Mr. Boggs also expressed concerns over Nicor Gas' proposal to eliminate its vertical gas riser provision. (Boggs Dir., Staff Ex. 8.0, 16:325-30). What is the Company's vertical gas riser program?

A. The vertical gas riser program was developed in the 1980s to assist the Company to compete for and increase its market share of gas appliances in buildings with four (4) or more stories. Limited to qualifying buildings which provide an adequate rate-of-return for the Company, the program offered to provide underground service piping at no charge and the installation of a vertical gas riser, or piping, owned and maintained by the Company within high-rise buildings.

Q. Staff witness Mr. Boggs recommends against eliminating the Vertical Riser program citing his request for more information. (Boggs Dir., Staff Ex. 8.0, 17:321-23). Has the Company provided any additional supporting information or documentation?

A. Yes. On August 25, 2008, Nicor Gas provided the response to Mr. Boggs' August 15, 2008 Data Request CB 2.06, through which Mr. Boggs sought additional support for the Company's vertical gas riser proposal.

Q. Please explain why the Company is proposing to eliminate its vertical gas riser program at this time.

A. As explained in Nicor Gas' response to Mr. Boggs' Data Request CB 2.06, the Company's vertical gas riser program has seen very limited participation and customer interest since it initially began in the 1980s. There have only been 3 projects completed in the last 10 years. Furthermore, there are currently no projects under consideration. Thus, the Company feels it is appropriate to eliminate the vertical gas riser program at this time.

Q. Did any other party object to any of Nicor Gas' proposed charges?

A. Yes. AG/CUB witness Mr. Rubin disputed the need for Nicor Gas to increase its charge for improper payments ("NSF") from $16.00 to $25.00. (Rubin Dir., AG/CUB Ex. 2.0, 38:848-42:922).

Q. Would application of the NSF fee result in double-recovery of working capital or any other costs as Mr. Rubin suggests? (Rubin Dir., AG/CUB Ex. 2.0, 40:888).

A. No. The revenues collected through the NSF fee are used to reduce Nicor Gas' test-year operating expenses. (Nicor Gas Ex. 11.1, p. 28, Column H and Nicor Gas Ex. 11.1, p. 32). Therefore, no portion of the NSF fee can double-recover any costs. Consequently, the revenues collected through this charge will serve to reduce the rates of those customers who make valid payments rather than double charge them.

Q. Is it necessary for the Commission to consider Mr. Rubin's other concerns about the calculation of carrying costs to resolve the NSF issue?

A. No. Nicor Gas proposes to establish a $25.00 NSF charge to better reflect the prevailing and equivalent NSF rates utilized at Peoples Gas, North Shore Gas and MidAmerican Energy and it makes a reasonable request for similar treatment on this issue. Mr. Rubin takes further issue with the calculation of carrying costs and believes that such rates should be calculated using short-term interest rates, resulting in a $0.77 carrying cost per NSF check. However, Nicor Gas has properly used a weighted average cost of capital, established in the 2004 Rate Case, resulting in a $3.33 carrying cost per NSF check that properly reflects Nicor Gas' total cost of capital from all providers of capital.

Q. Why should the Commission approve the Company's proposed NSF charge of $25.00?

A. First, Nicor Gas makes a reasonable request to establish a $25.00 NSF charge at the prevailing levels of other Illinois utilities as approved by the Commission. Second, revenues generated from the NSF charge will serve to reduce the rates of customers who make valid payments by reducing the Company's costs through a credit to operating expenses from NSF revenue. Third, a $25.00 NSF fee will recover the costs associated with processing NSF checks. Fourth, a $25.00 NSF charge will act as a reasonable deterrent to customers to utilize invalid checks. Finally, the Commission should find that Nicor Gas' circumstances and rationale are the same as Peoples Gas, North Shore Gas and MidAmerican Energy and should support a $25.00 NSF charge.

Q. Does the Company agree that its Terms and Conditions should be modified with respect to the determination of a customer's Maximum Daily Nomination ("MDN") as suggested by Staff witness Mr. Sackett? (Sackett Dir., Staff Ex. 11.0R, 4:68-69).

A. Yes. The Company agrees to change its Terms and Conditions as identified in the attached Nicor Gas Exhibit 29.2, page 8 (Sheet No. 49) to reflect, for the purposes of the MDN determination, that "the Company *will* accept anticipated monthly usage provided it is substantiated by the Customer."

Q. Does the Company agree with Staff witness Mr. Boggs' initial recommendation to not approve the proposed change in the Company's Gas Supply Cost multiplier of 0.50 as shown on Nicor Gas Exhibit 14.2, page 15 (Sheet No. 12)?

A. No. Mr. Boggs indicated that he is willing to reconsider his initial recommendation should additional justification for the change be available. (Boggs Dir., Staff Ex. 8.0, 23:450-51). In fact, Nicor Gas provided a response to Mr. Boggs' August 19, 2008 Staff Data Request CB 3.01 on August 25, 2008, which illustrated that the computation of the 0.50 factor is consistent with the calculations made during the 2004 Rate Case as further support of its proposed revision. Further, Mr. Boggs should recognize that the 0.50 factor update is a result of changes to the underlying data used to compute the factor at this time.

Q. Vanguard witness Mr. Anderson requests that the Commission change the time period of the Customer's Maximum Daily Contract Quantity ("MDCQ") annual redetermination to include the most recent January through March months to capture the entire most recent heating season. (Anderson Dir., VES Ex. 1.0, 7:141-48). Does the Company agree that this change is appropriate?

A. No. While Mr. Anderson raises an interesting point, there are two existing tariff requirements that render Mr. Anderson's request impractical from a timing perspective. As provided by Nicor Gas tariffs (Sheet No. 50), Nicor Gas must notify transportation customers of their redetermined MDCQ by March 1. The customer must then notify Nicor Gas of their selected Storage Banking Service ("SBS") and Firm Back Up Service ("FBS") quantities by April 1. The new selections become effective on June 1. Therefore, to meet the timing requirements for the MDCQ redetermination process and capacity selection process, the most recent January through March period cannot be included in the MDCQ redetermination.

Q. In addressing Mr. Anderson's concern noted above, are there any existing tariff provisions which currently allow customers an opportunity to re-establish their MDCQs?

A. Yes. A customer is permitted, at any time during the year, to request that the Company adjust its MDCQ quantity, either upwards or downwards, provided that the change in quantity can be substantiated by the customer. The Company provides a standard request form for MDCQ redetermination on its website and routinely reviews these requests on a case-by-case basis throughout the year. Therefore, the Company believes that the existing MDCQ calculation process along with the ability to request an MDCQ redetermination provides more than adequate flexibility to Transportation customers and addresses Mr. Anderson's concern.

Q. Vanguard witness Mr. Anderson suggests the Company should permit Transportation customers to routinely imbalance trade their storage gas, citing

purported benefits to both the Company and its customers. (Anderson Dir., VES Ex. 1.0, 3:46-48). Please explain imbalance trading.

A. The Company currently provides the ability for Transportation customers to move or "trade" gas stored in excess of their storage capacity for the purpose of avoiding recurring penalty conditions. This is traditionally done at the direction of the customer or the customer's authorized agent, in writing, with the assumption that the parties involved are in agreement with respect to the volume of gas and other applicable terms. Transfers of excess storage gas have an implied "benefit" to the customer in that they relieve a penalty.

Q. Does the Company agree with Mr. Anderson's assessment?

A. No. Mr. Anderson's use of the term "imbalance" is ambiguous in that it implies that storage quantities are routinely out-of-balance with respect to something. With the exception of an excess storage condition, which is an amount in excess of allocated storage capacity, there is no "imbalance" as storage inventory levels routinely fluctuate. Mr. Anderson is proposing that suppliers acting as agent have the ability to transfer customer's gas in storage at any time, even in situations where the need to transfer balances or the benefit to the customer may be unclear or non-existent.

Q. Mr. Anderson suggests the Company's proposed MDN revisions for July though October should not be recalculated because "the Company provides no insight as to how their recalculation of MDN would work for a customer in a marketer's pool." (Anderson Dir., VES Ex. 1.0, 8:172-9:184). Furthermore, Mr. Anderson notes that since gas in storage does not follow the customer to the new marketer, then the

individual customer will not be able to meet the 90 percent storage fill by November 1. (*Id.*) How does Nicor Gas respond to this concern?

A. First, Mr. Anderson correctly observes that gas in storage does not currently follow the customer to a new marketer and will not in the future. Typically, customers do not pay their suppliers for gas in storage until it is withdrawn from storage and, if necessary, these circumstances are addressed within the customer's supply contract with the Supplier. Secondly, Suppliers are already familiar with the implications of adding and removing customers from their groups and should already be cognizant of this issue. Customers can choose when to switch Suppliers and will take storage issues into consideration when making those choices.

Q. Has the Company identified any other concerns with Mr. Anderson's request to permit imbalance trades at any time?

A. Yes. First, the existing $15.00 charge for doing excess storage balance transfers is designed to recover the costs associated with the administrative process, and is not intended, as Mr. Anderson suggests, to be a profit center for Nicor Gas. Second, the Company's existing processes to move gas in storage is entirely manual, and the Company is not appropriately staffed to manage an unknown quantity of requests. Finally, as identified by Nicor Gas witness Kevin Kirby, this would create significant billing and accounting issues. (Kirby Reb., Nicor Gas Ex. 21.0).

Q. CNE witness Ms. Rozumialski recommends the concept of "super-pooling" for third party Suppliers on a Critical Day. (Rozumialski Dir., CNE Ex. 2.0, 18:377-79). Specifically, what is Ms. Rozumialski requesting?

A. Ms. Rozumialski is requesting that on Critical Days for third-party Suppliers, Nicor Gas aggregate or net all the gas delivery and storage balance information across all the Supplier's individual groups. The aggregated data would be used to determine if any penalties would be applied to the Supplier's customers.

Q. Does the Company support Ms. Rozumialski's proposal?

A. Nicor Gas does not agree with Ms. Rozumialski's proposal for four reasons. First, in the 2004 Rate Case, the number of customers permitted to join Rider 13, Supplier Transportation Service, non-common ownership groups was expanded from 50 to 150. This accommodation provided increased benefits to suppliers in their ability to aggregate deliveries of customer-owned gas on any day, including Critical Days. Second, based on the Final Order entered in the 2004 Rate Case, the concept of "super-pooling" was limited in its application to only the determination of the customer's Storage Withdrawal Factor used to determine how much gas could be withdrawn from storage on a Critical Day. The Commission reached the same conclusion in its Final Order in the recent Peoples Gas Rate Case. Third, on Critical Days, the use of Company-supplied gas by a customer, if any, is calculated at the individual account level after a complex calculation process beginning with specific gas deliveries sourced to the specific group. Adding another level of complexity, by introducing an additional source of gas to any group through "super-pooling", would require significant changes to Nicor Gas' billing programming and processes.

Finally, the Company has only declared a Critical Day fifteen (15) times since April 1996 showing the infrequency of their occurrence. Due to the infrequency, there is not sufficient justification to warrant the significant programming or ongoing process

change costs. In light of these facts, the Company would consider Ms. Rozumialski's requests for super-pooling of groups on Critical Days to be unjustified, impracticable and administratively burdensome.

VII. PROPOSED BASE RATE CHARGES

Q. Does Nicor Gas propose any changes to its base rate charges from what was originally proposed by the Company?

A. As shown in Revised Schedule C-1 of Nicor Gas witness Mr. Gorenz' testimony (Nicor Gas Ex. 26.1), Nicor Gas' proposed total base revenues increase by only $1.3 million as compared to its original proposal. This amount is too small to warrant a full revision to Nicor Gas' base rates at this time. However, Nicor Gas will present its final proposed base rates with its surrebuttal testimony.

As also discussed by Mr. Heintz, there has been a change to the cost of storage service (Nicor Gas Exhibit 30.2), which necessitates a change to the Storage Banking Service ("SBS") charge. Nicor Gas is proposing a reduction in the charge from $0.0051 per therm of storage capacity to $0.0042 per therm of storage capacity based upon a revision to the Storage Revenue Requirements within the cost of service study.

VIII. STORAGE BANKING SERVICE CHARGE

Q. Why is it necessary to change the SBS charge?

A. As noted by Mr. Heintz in his rebuttal testimony, BWMQ's original calculation in Nicor Gas Exhibit 15.1 of the storage revenue requirements (Schedule E, Column E) inadvertently excluded the value of storage gas losses ($15.2 million) from Column E. Storage gas losses were first added as an operating expense at the end of the 2004 Rate Case and properly reflected within Schedule E of Nicor Gas' compliance filing; however,

they were inadvertently excluded on Exhibit 15.1. As in the 2004 Rate Case, the value of storage gas losses should properly be removed along with the value of top gas before computing the total Storage Revenue Requirements (Column F, Line 17), which now totals $67.9 million for the purpose of calculating the Storage Banking Service charge. The correction results in the amount of cost to be recovered by the SBS charge decreasing from $83.2 million to $67.9 million. (Nicor Gas Ex. 30.1, Schedule E, Line 17).

Q. IIEC witness Dr. Rosenberg questions Nicor Gas' storage gas losses in the amount of $15,230,000. (Rosenberg Dir., IIEC Ex. 1.0, 16:303-05). Is Nicor Gas' proposed cost for storage gas losses reasonable?

A. Yes. The storage gas losses, as ordered by the Commission in the 2004 rate case, are determined by multiplying the amount of gas withdrawn from Company storage fields by two percent and reflect only the Sales customers' portion of storage gas losses. In the 2004 Rate Case that amount was $11,513,000. Due to increases in the price of natural gas the amount is now $15,230,000 and, as discussed above, this amount has now been properly removed from the calculation of the Storage Banking Service charge.

Q. How is the SBS charge determined?

A. The SBS charge is determined by dividing the storage revenue requirement excluding top gas and storage gas losses ($67.9 million) by the amount of storage capacity which is operationally available (134.6 Bcf) as further described by Mr. Bartlett divided by 12 to compute the monthly cost per therm of capacity charge. (Bartlett Reb., Nicor Gas Ex. 19.0). The result of this calculation is an SBS charge of $0.0042 per therm of storage

capacity as identified in the Company's proposed revision to its Rates 74, 75, 76 and 77 tariffs, Sheet Nos. 19, 21.4, 22 and 26. (*See* Nicor Gas Ex. 29.2, pages 2-5).

Q. Is Nicor Gas proposing a different method of calculating the SBS charge than was approved in the 2004 Rate Case?

A. No, the basic method of calculating the SBS charge is to divide the storage revenue requirement (dollars) by the amount of available storage capacity (Bcf); however, Nicor Gas believes it would be inappropriate to continue to use the 149.7 Bcf of capacity established in the 2004 Rate Case because, as Mr. Bartlett indicates, that amount of capacity is not operationally available. (Bartlett Reb., Nicor Gas Ex. 19.0). If Nicor Gas were to allocate storage capacity to transportation customers and develop its SBS charge knowing that 149.7 Bcf of capacity is not operationally available, then it would both establish an SBS charge which is too low and over-allocate storage capacity to Transportation customers to the detriment of Sales customers. It was this concern that prevented Nicor Gas from utilizing 149.7 Bcf in its calculations.

Q. What did the Commission say about the method that should be used to calculate the SBS charge in the Final Order in the 2004 Rate Case?

A. The Final Order in the 2004 Rate Case stated as follows:

> The calculation of the SBS charge depends largely on decisions made with respect to related issues. The tariffs filed by Nicor, after the conclusion of this proceeding, should include an SBS charge that reflects the Commission's decision regarding the embedded cost of service less the cost of top gas, divided by the working gas in storage, 149.74 Bcf, a portion of which is allocated to Transportation customers consistent with the decision above regarding "Storage Capacity Allocation". The tariffs filed by Nicor should also reflect the Commission's decisions above regarding the proper allocation of Hub revenues.

(2004 Rate Case Order, p. 138) (Emphasis added). As the Commission recognized in the 2004 Rate Case, the calculation of the SBS charge is dependent upon the related issue of Storage Capacity Allocation to Transportation customers. Therefore, before the proper SBS charge can be computed, the total amount of available storage capacity to allocate must be accurately established.

Q. How is the Storage Capacity Allocation for Transportation customers related to the SBS Charge?

A. The Storage Capacity Allocation represents the equal number of peak days of on-system storage capacity which is available to all Nicor Gas' customers. It is computed by dividing the amount of available on-system storage capacity (134.6 Bcf) by the peak day demand (4.9 Bcf). It was also referred to as the "SBS entitlement" calculation in the Final Order in the 2004 Rate Case. (2004 Rate Case Order, p. 121). The numerator of the SBS entitlement calculation is the same as the denominator in the SBS Charge calculation.

Q. Is there disagreement over the amount of storage capacity to use in the denominator of the SBS charge and in the numerator of the SBS entitlement calculation in this proceeding?

A. Yes. IIEC witness Dr. Rosenberg believes that Nicor Gas should use the maximum amount of working gas in storage of 149.7 Bcf established in the 2004 Rate Case in the denominator rather than 134.6 Bcf discussed by Mr. Bartlett. (Rosenberg Dir., IIEC Ex. 1.0, 15:288-16:319; Bartlett Dir., Nicor Gas Ex. 4.0, 6:125-35; and Bartlett Reb., Nicor Gas Ex. 19.0). Moreover, CNE witness Ms. Fabrizius also believes the SBS allocation of the number of peak days of storage should increase to 31 days by using 149.7 Bcf in the

numerator of the SBS entitlement calculation. (Fabrizius Dir., CNE-Gas Ex. 1.0, 16:338-45). The operational capabilities and proper amount of storage capacity to use in these calculations is discussed in the rebuttal testimony of Mr. Bartlett. (Bartlett Reb., Nicor Gas Ex. 19.0).

Q. Is, as Mr. Sackett has suggested (Sackett Dir., Staff Ex. 11.0R, 21:439-41), Nicor Gas attempting to calculate the SBS charge based on actual cycling to recover what is essentially a capacity-based charge?

A. No. The amount of non-coincident working gas capacity is used in the denominator of the calculation (134.6 Bcf) and this amount is different than the level of storage the Company expects to cycle. (*See* Bartlett Dir., Nicor Gas Ex. 4.0).

Q. Why should the Commission reject the use of 149.7 Bcf volume of storage capacity in its SBS entitlement and SBS charge calculations?

A. If this were to occur, the Commission would effectively grant three more peak days of storage capacity to every Transportation and Customer Select customer than to Sales customers. The calculations are shown below in Table 3:

Table 3 – Storage Entitlement (MDCQ Days)

Storage Capacity Allocation (Days)

Line #	Item	Nicor	IIEC/CNE/Staff
1	Proposed Capacity (Bcf)	134.633	149.740
2	Storage Capacity (Therms)	1,346,330,000	1,497,400,000
3	Peak Day Demand (Therms)	49,000,000	49,000,000
4	SBS Entitlement (Days) (Line 7 / Line 8)	27.5	30.6
5	SBS Entitlement (Days) Rounded	28	31

Q. Why is using 149.7 Bcf of capacity a problem?

A. If 149.7 Bcf of capacity were allocated, the "SBS Entitlement" calculation would result in Transportation and Customer Select customers being entitled to 31 peak days of storage capacity. In theory, Sales customers should also receive 31 peak days of storage capacity. Transportation and Customer Select customers would automatically receive the 31 day entitlement within their tariffs as a result of this proceeding; however, since Sales customers can only receive the remaining capacity amount and since the actual operational capability of Nicor Gas' on-system storage fields is only 134.6 Bcf, Sales customers would actually receive a smaller share of the pie because too much was allocated to Transportation and Customer Select customers.

Q. How much additional storage capacity would be available to Nicor Gas' Transportation and Customer Select customers?

A. As shown below in Table 4, three additional peak days of allocated storage capacity multiplied by 16,840,000 total Transportation and Customer Select peak days (MDCQs) would result in an additional allocation of 50,520,000 therms (5.05 Bcf) of storage capacity.

Table 4 – Storage Capacity Allocation Comparison

Storage Capacity Allocation (Volume)

		Nicor	IIEC/CNE/Staff
1	SBS Entitlement (Days) Rounded	28	31
2	MDCQs - Transportation (Therms)	12,500,000	12,500,000
3	MDCQs - Customer Select (Therms)	4,340,000	4,340,000
4	Total MDCQ	16,840,000	16,840,000
5	Storage Capacity (Therms) (Line 1 X Line 4)	471,520,000	522,040,000
6		Less 28 day allocation	471,520,000
7	Additional Transportation and Customer Select Storage Capacity (Ln 5 - Ln 6)		50,520,000

Q. Why is Nicor Gas concerned with an over-allocation of storage capacity?

A. Sales customers would actually receive less storage capacity to cycle if Transportation customers were allocated 31 peak days of storage capacity. After allocating storage capacity to Transportation customers, Nicor Gas can only cycle the remaining storage capacity for Sales customers. Therefore, as shown below in Table 5, at a 31 day SBS entitlement allocation, Transportation and Customer Select Suppliers would receive a total of 5 Bcf of additional storage capacity while Sales customers would receive 5 Bcf less.

Table 5 – Remaining Storage Capacity Available for Sales Customers

Line #	Remaining Storage Capacity Available for Sales Customers					
1	Total Storage Capacity / Capability (Therms)		1,346,330,000		1,346,330,000	
		Days	**Nicor**	**Days**	**IIEC/CNE/Staff**	**Increase (Decrease)**
2	Transportation Allocation	28	350,000,000	31	387,500,000	37,500,000
3	Customer Select	28	121,520,000	31	134,540,000	13,020,000
4	Rate 17 / Rate 19 - Contract Rates	23	39,511,000	23	39,511,000	-
5	Subtotal		511,031,000		561,551,000	50,520,000
6	Remaining Capacity Available for Sales Customers		835,299,000		784,779,000	(50,520,000)

Q. Can you provide an example of the approximate economic value of the gas cost savings associated with 5.0 Bcf of additional storage capacity?

A. Although summer-winter commodity gas price differences change from year to year, if we were to assume an average differential of $0.10 to $0.15 per therm, including carrying costs, then the storage capacity would have approximate value of $5 million to $7.5 million dollars per year in favor of Transportation customers but to the detriment of Sales customers. The value is realized by injecting gas at typically lower summer prices and withdrawing it during the winter to avoid typically higher winter gas prices. Furthermore, because the operational capability of Nicor Gas' on-system storage fields is finite, Sales customers would lose the opportunity for $5 million to $7.5 million per year of gas costs savings.

Q. Would Transportation customers pay for their additional storage capacity?

A. No. Transportation customers would receive an additional 3.75 Bcf of storage capacity for free. As shown below in Table 6, if 149.7 Bcf is used in the SBS calculation, the SBS charge decreases from $.0042 per therm to $.0038 per therm of capacity. Consequently,

as shown below in Table 7, Transportation customers (excluding Customer Select customers) would receive access to 3.75 Bcf of additional storage capacity and the SBS rate would decline, leaving Sales customers to pick up the difference.

Table 6 – SBS Charge Calculation

SBS Charge Calculation

Line #			
1	SBS Revenue Requirment	$ 67,873,000	$ 67,873,000
2	Storage Capacity Allocation (Bcf)	1,346,330,000 Therms	1,497,400,000 Therms
3	SBS Charge Per Therm Capacity	$ 0.0504	$ 0.0453
4	SBS Charge Per Month (Line 3 / 12)	$ 0.0042	0.0038

Table 7 – Transportation Customer SBS Revenues

Transportation Customer SBS Revenues

		Nicor	IIEC/CNE/Staff
1	SBS Entitlement (Days) Rounded	28	31
2	MDCQs - Transportation (Therms)	12,500,000	12,500,000
3	Transportation Storage Capacity (Ln 1 X Ln 2)	350,000,000 Therms	387,500,000 Therms
4	SBS Charge	$ 0.0042	$ 0.0038
5	Annual SBS Revenues (Ln 3 X Ln 4 X 12)	$ 17,644,671	$ 17,564,303

Q. Would Customer Select customers pay more for their additional storage capacity?

A. No. Customer Select customers would also receive this additional storage capacity for free. Since both Sales and Customer Select customers pay the same amount for storage in base rates, Customer Select Suppliers could cycle 3 more days than Sales customers but they would pay the same cost as Sales customers.

Q. In summary, what is the effect of using an artificially high storage capacity amount?

A. If the Commission were to approve the larger number, then Transportation and Customer Select customers would receive the triple benefit of (a) access to more storage capacity per customer (MDCQ days) than Sales customers, (b) economic value from cycling that additional storage capacity (e.g. $5 million to $7.5 million per year for example), and (c) 5 Bcf of incremental storage capacity for free because neither Transportation or Customer Select customers would pay more than they would otherwise for the incremental capacity. Simply put, the Commission should not allocate more storage than is operationally available to Transportation and Customer Select customers otherwise Sales customers will not receive an equal share of the "storage pie" (MDCQ days).

Q. How does the proposed reduction in the SBS charge to $0.0042, and consequently the amount of revenues to recover these costs, change other charges?

A. Assuming the same level of total revenue requirements as proposed by Nicor Gas is approved by the Commission, the reduction in SBS revenues would result in increases to other base rate distribution charges.

IX. PROPOSED TRANSPORTATION CHANGES

Q. Based on the Company's response to Staff Data Request DAS 4.04, Staff witness Mr. Sackett recommends the relocation of the second paragraph on Sheet No. 45 "Limitations on the Rendering of Gas Service", which gives the Company authority to "cap" pipelines when operationally deemed necessary, because it relates solely to Transportation customers and would more appropriately be included in the

Transportation and Storage Provisions section of the tariff. (Sackett Dir., Staff Ex. 11.0R, 11:211-15). Does the Company agree with Staff's recommendation?

A. Yes. The Company agrees with Staff and offers as pages 6 and 7 of Exhibit 29.2, revised Sheet Nos. 45 and 48 that identify the relocation of the second paragraph in "Limitations on the Rendering of Gas Service" to Sheet No. 48 and identify such language as an Operational Flow Order, more specifically stated as "OFO Cap Day," along with other necessary conforming changes.

Q. CNE witness Ms. Fabrizius suggests that Nicor Gas' proposes a different method for calculating the 0.017 factor used within the Storage Withdrawal Factor ("SWF") formula than was approved in the 2004 Rate Case. (Fabrizius Dir., CNE-Gas Ex. 1.0, 4:81-5:88). Is she correct?

A. No. A variety of different terminology has been used to describe the inputs to the "0.017 factor" calculation. As in the 2004 Rate Case, the numerator is the amount of withdrawals that can be delivered from on-system storage on a peak day or 2.5 Bcf. This amount has not changed since that case. The denominator should be equal to the total amount of Storage Banking Service allocated to Transportation customers which can be computed by taking the number of MDCQ days allocated (SBS entitlement) multiplied by the estimated peak day. A comparison of the 2004 and 2008 rate case data are shown below:

2004 Rate Case:

Factor = $\frac{\text{2.5 Bcf peak day storage capability}}{\text{(28 days X 5.2580 Bcf peak day)}}$ = 0.017 or 1.7%

Transportation customers who filled their storage to at least 90 percent of its capacity would receive the ability to withdraw approximately 47 percent (1.7 percent X 28 days) of their needs from storage on a Critical Day and would bring in the remaining 53 percent from the pipeline.

2008 Rate Case:

Factor = $\frac{\text{2.5 Bcf peak day storage capability}}{\text{(28 days X 4.9000 Bcf peak day)}}$ = 0.018 or 1.8%

Nicor Gas is proposing to increase Transportation customer's daily storage withdrawal right factor from 0.017 to 0.018, in a manner consistent with the last case, such that when they fill at least 90 percent of their SBS entitlement they would have the ability to withdraw approximately 50 percent (1.8 percent X 28 days) of their needs from storage on a Critical Day and would bring in the remaining 50 percent from the pipeline. This factor should be updated from 0.017 to 0.018 within the SWF formula as described in Nicor Gas Ex. 14.0, 29:645-50.

Q. With respect to determining a customer's Storage Withdrawal Factor (SWF), Dr. Rosenberg, at IIEC Exhibit 1.0; 22, 441-443, proposes that the customer's Maximum Inventory Balance be determined between the period of October 15 and November 15 as opposed to the determination exactly on November 1. Does the Company agree with Dr. Rosenberg's recommendation?

A. No. This is problematic for two reasons. First, Nicor Gas bills these customers at the end of the month and therefore, has all the information needed to calculate the SWF at October 31st but not at November 15th. Expanding the evaluation period would complicate the calculation process and result in no meaningful improvement. Secondly,

Nicor Gas is required by tariff to notify daily-balanced customers, shortly after November 1st, of their new SWF factor. This is important because a Critical Day can be called on or after November 1st of each year and the customer's SWF can be utilized as early as November 1. Utilizing November 15th would move back the process of notifying customers of their SWF by another two weeks which is well past the time a Critical Day can be called. Consequently, Nicor Gas sees no need to change its current method of determining the SWF as of November 1.

X. PROPOSED CHANGES TO EXISTING RIDERS

Q. Please summarize Nicor Gas' proposed changes to its existing riders.

A. Nicor Gas proposes to modify its existing Rider 2 – Franchise Cost Adjustment to provide for annual updates to charges based upon the actual costs incurred. Further, the Company proposes to modify its existing Rider 8 – Adjustments for Municipal and State Utility Taxes to include taxes by other local governmental units. Finally, the Company proposes to update two factors within is existing Rider 5 – Storage Service Cost Recovery based on the results of the ECOSS, and no party objected to this proposal.

Q. With respect to the Company's proposed changes to Rider 2 – Franchise Cost Adjustment, does Staff witness Mr. Boggs support the Company's recommendation to annually establish charges based on the actual cost of providing reduced rate service or other monetary contribution during the previous calendar year?

A. Yes. Mr. Boggs recommended that the Company's proposed changes to Rider 2 be approved. (Boggs Dir., Staff Ex. 8.0, 4:69-77).

Q. Did Staff propose any technical modifications to Rider 2 as proposed by Nicor Gas?

A. Yes. Staff witness Ms. Hathhorn proposed that language be added to Rider 2 to include a provision requiring that supporting work papers be included along with the Company's annual Informational Sheet filing. (Hathhorn Dir., Staff Ex. 2.0, 33:821-24).

Q. Does Nicor Gas accept Ms. Hathhorn's proposed modifications to Rider 2?

A. Yes. The Company proposes that language be added to Rider 2 as identified in the attached Nicor Gas Exhibit 29.2, page 9.

Q. With respect to Rider 8, Mr. Boggs requested further clarification to understand how the Company would be reimbursed for "any payments resulting from audit adjustments" when the charge to customers is a fixed percent of revenue. (Boggs Dir., Staff Ex. 8.0, 6:101-10:201). What is the Company's response to Mr. Boggs?

A. Mr. Boggs was provided with additional explanations for the changes to Rider 8. The Company agrees that Rider 8 charges are a fixed percentage rate; however, adoption of this proposed change to Rider 8 would not alter any application of the fixed percentage rate. In the event of a tax audit adjustment, the Company would bill only the affected customers for previously untaxed service at the applicable fixed percentage rate to correct the situation.

Q. Does the Company agree with Staff witness Mr. Boggs' recommendation to reject the modified tariff language for Rider 8 relating to tax audit adjustments? (Boggs Dir., Staff Ex. 8.0, 6:101-10:201; *see also* Data Request CB 2.07 series).

A. No. Mr. Boggs indicated that he is willing to reconsider his initial recommendation pending his review of the Company's response to Data Request CB 2.07. The Company

provided the additional information and believes that the proposed Rider 8 tariff modifications better clarify its authority to collect payments from customers resulting from tax audit adjustments.

Q. Mr. Boggs recommends that if the Company's tariff audit language is approved the word "payment" in the tariff should be changed to "amount" to account for payments either to or from the Company. (Boggs Dir., Staff Ex. 8.0, 6:101-10:201). Does the Company accept this suggested change?

A. Yes. The Company has updated tariff Sheet Nos. 64 and 64.1 to reflect this change and they are included in Nicor Gas Exhibit 29.2, pages 11 and 12.

Q. Does the Company agree with Mr. Boggs' observation that the Company incorrectly identifies the municipality of Niota as being located in Cook County on Nicor Gas' 3rd revised Sheet No. 7? (Boggs Dir., Staff Ex. 8.0, 24:473-75).

A. Yes. The Company proposes to make the correction suggested by Mr. Boggs, as shown on Nicor Gas Exhibit 29.2, page 1, to identify Niota to be located in Hancock County.

XI. PROPOSED NEW RIDERS

Q. Please summarize the new riders proposed by Nicor Gas.

A. Nicor Gas proposes five new riders in this proceeding:

- Rider 26, Uncollectible Expense Adjustment ("Rider UEA");
- Rider 27, Company Use Adjustment ("Rider CUA");
- Rider 28, Volume Balancing Adjustment ("Rider VBA");
- Rider 29, Energy Efficiency Plan ("Rider EEP"); and
- Rider 30, Qualifying Infrastructure Plant ("Rider QIP").

A. RIDER 26 – UNCOLLECTIBLE EXPENSE ADJUSTMENT

Q. What is the purpose of Rider UEA?

A. The purpose of Rider UEA is (1) to recover the amount by which the Company's actual annual Uncollectible Expense in a calendar year exceeds 105 percent of the Uncollectible Expense as determined by the Commission in the Company's most recent rate case, or (2) to refund the amount by which 95 percent of the Uncollectible Expense exceeds the Company's actual Uncollectible Expense in such calendar year. Rider UEA shall be applicable to Rates 1, 4, 5, 74 and 75 and Riders 15 and 25.

Q. If Rider UEA is adopted by the Commission, Staff witness Ms. Hathhorn recommends four changes to the rider. (Hathhorn Dir., Staff Ex. 2.0, 26:639-27:647). Does Nicor Gas agree with Ms. Hathhorn's recommendations?

A. Yes. If Rider UEA is adopted by the Commission, the Company would agree to the four recommendations Ms. Hathhorn addresses in her direct testimony. The Company offers the following revisions to the originally proposed Rider UEA (Nicor Gas Ex. 14.2, pages 128-131): (1) an annual docketed reconciliation proceeding, which includes a Factor O for Commission ordered adjustments in the tariff formula; (2) a prudency and reasonableness of costs determination in such a reconciliation proceeding; (3) an annual internal audit with specific tests; and (4) a better defined calculation of uncollectible expense under Rider UEA. (Nicor Gas Ex. 29.2, pages 19-20).

B. RIDER 27 – COMPANY USE ADJUSTMENT

Q. What is the purpose of Rider CUA?

A. The purpose of Rider CUA is to recover or refund the difference between the actual cost incurred by the Company in a calendar year to purchase a specified quantity of gas for certain operational uses ("Company Use") and the cost included in computation of the Company's base rates in its most recent rate case for the purchase of gas for those operational uses. Rider CUA will only adjust for natural gas price differences between rate case test year prices and the actual future costs (price per therm) incurred; it will not adjust for cost differences associated with changes in the volumes of natural gas consumed for Company Use. Therefore, Rider CUA only will adjust for the unpredictable and volatile cost of Company Use gas. Rider CUA would apply to all rate classifications except Rates 17, 19 and 21.

Q. If Rider CUA is adopted by the Commission, Ms. Hathhorn recommends four changes to the rider. (Hathhorn Dir., Staff Ex. 2.0, 30:733-38). Does Nicor Gas agree with Ms. Hathhorn's recommendations?

A. Yes. If Rider CUA is adopted by the Commission, the Company would agree to the four recommendations Ms. Hathhorn addresses in her direct testimony. The Company offers revisions to the originally proposed Rider CUA (Nicor Gas Ex. 14.2, pages 132-135): (1) an annual docketed reconciliation proceeding that includes a Factor O for Commission ordered adjustments in the tariff formula; (2) a prudency and reasonableness of costs determination in such a reconciliation proceeding; (3) an annual internal audit with specific tests; and (4) certain other corrections to the tariff proposed by Nicor Gas. (Nicor Gas Ex. 29.2, page 24).

Q. Does Nicor Gas propose any additional modifications to Rider CUA?

A. In response to Staff witness Mr. Brightwell's recommendation (Brightwell Dir., Staff Ex. 13.0, 26:531-37), the Company has removed the reference to the lesser of the most recent year and the test-year forecasted volumes in the definitions of the RCCUT and RCTSCT and will only use the test-year forecasted volume from the most recent rate case. Further, the tariff has been modified to correct originally proposed references to Account 824 to correctly identify Account 823. Finally, in response to Staff Data Request SK 2.03, the Company has modified its tariff, as identified in Nicor Gas Exhibit 29.2, pages 22-23, to correct the definitions of RCCUT and RCTSCT, parts (ii) to include a portion of ACUT in Accounts 823, 932, and 819.

C. RIDER 28 – VOLUME BALANCING ADJUSTMENT

Q. What is the purpose of Rider VBA?

A. The purpose of Rider VBA is to adjust the collection of volumetric base rate revenues, on a monthly basis, to match the level of volumetric base rate revenues that are approved in this proceeding. The adjustment ensures that Nicor Gas recovers no more and no less than the approved volumetric base rate revenue necessary to recover the Commission approved volumetric distribution revenues that are contained in the distribution charges for Rates 1, 4, and 74. Fundamentally, Rider VBA adjusts future revenues to match the normal rate case revenue assumptions established for the test year. The Company proposes to implement Rider VBA on a pilot basis for a four-year period.

Q. If Rider VBA is adopted by the Commission, Staff witness Ms. Jones recommends five changes to the rider. (Jones Dir., Staff Ex. 3.0, 22:401-27:545). Does Nicor Gas agree with Ms. Jones' recommendations?

A. Yes. If Rider VBA is adopted by the Commission, the Company would agree to the five recommendations Ms. Jones addresses in her direct testimony. The Company offers revisions to the originally proposed Rider VBA (Nicor Gas Ex. 14.2, pages 136-139) to: (1) correct the definition of "Previous Reconciliation Period"; (2) support modifying the computation of the RA_1 Reconciliation Adjustment to be consistent with the formula approved by the Commission in the Peoples Gas Rate Case; (3) incorporate the suggested relocation of language from Section D to Section C and the addition of language to Section C; (4) annually report the effects of Rider VBA on the Company's rate-of-return; and (5) add a tariff requirement for an annual internal audit report to be filed with the Commission. (Nicor Gas Ex. 29.2, pages 25-27).

Q. Do you agree with Ms. Jones' characterization of the Company's Rider VBA as a "partial decoupling" mechanism? (Jones Dir., Staff Ex. 3.0, 27:546-577).

A. No. The difference between a "partial decoupling" mechanism and a "full decoupling" mechanism depends upon the number of factors the mechanism adjusts for. For example, a simple weather normalization adjustment rider corrects only for differences between the rate case test-year weather assumptions and actual weather. Since it corrects for only one potential source of variability it is viewed as a "partial decoupling" mechanism. Rider VBA should properly be viewed as a "full decoupling mechanism" because it corrects for all differences between the rate case test-year revenue assumptions and actual revenues received based on the rate case numbers of customers. For example, Rider VBA will

adjust for differences in weather as well as other changes in customer consumption patterns such as increased energy efficiency and conservation. The Company's proposed Rider VBA is therefore properly viewed as a "full decoupling" mechanism.

Q. Ms. Jones indicates that "because the revenue margin per customer approved in the instant proceeding is based on projected level of customers, an increase in the actual number of customers could result in the Company recovering more for fixed costs than the amount approved in the revenue requirement." (Jones Dir., Staff Ex. 3.0, 29:556-60). Is this correct?

A. No. Nicor Gas' proposed reconciliation adjustment factor (RA_1) ensures that Nicor Gas receives no more and no less than the total annual rate case margin associated with the percentage of fixed costs approved in this proceeding.

Q. Could you please describe how the RA_1 reconciliation formula would work?

A. Yes. For example, in its direct case Nicor Gas proposed to recover $138,908,000 in rate case margin through its volumetric Rate 1 distribution charges. Also, in response to Data Request BCJ 4.07, Nicor Gas has indicated that the percentage of fixed costs contained within the volumetric Rate 1 distribution charges is 80.47 percent – therefore, through Rider VBA, Nicor Gas cannot mathematically collect more than $138,980,000 X 80.47 percent or approximately $111,837,206 for rate case test year Rate 1 customers. In total, Nicor Gas can never recover more or less than the Commission-approved level of fixed costs contained within its volumetric distribution charges. The purpose of the RA_1 formula is to determine the level of adjustment necessary to reconcile actual revenues arising from the application of the monthly Effective Component to the total fixed cost proportion of the Commission-approved rate case margin.

Q. Ms. Jones does not recommend, yet provides an alternative Effective Component and RA_1 formula. (Jones Dir., Staff Ex. 3.0, 29:578-31:644). Should the Commission adopt Ms. Jones' alternatives?

A. Definitely not. Ms. Jones' alternative formulas cap Nicor Gas' future Rate 1 revenue at rate case test year levels and requires Nicor Gas to serve new customers without receiving any incremental revenues. This is a serious departure from the traditional regulatory model under which utilities have the obligation to serve new customers in between rate cases and are allowed to recover at least a portion of their incremental fixed costs required to serve new customers at current rates.

Q. Why is Nicor Gas' proposal to limit the total revenue requirement applicable to Rate 1 customers at no more than test-year levels for rate case customers more appropriate than capping Nicor Gas' total Rate 1 revenue requirement at test year levels?

A. Nicor Gas' proposal is consistent with historical regulatory processes in which utilities have the obligation to serve new customers in between rate cases and are required to serve new customers at the utility's existing rates which exclude any incremental plant investment or operating expenses which occurred since the last rate proceeding. Ms. Jones' formula would effectively force Nicor Gas to absorb costs from new customer growth without any offsetting revenues because the investment costs and revenues associated with new customers are excluded from Rider VBA. The Company's proposed Rider VBA is designed only to adjust revenues based on existing rate case customer levels, such that revenues on rate case customers are adjusted back to those approved in the test year. In addition, Nicor Gas' approach is exactly the same as used within the

Rider VBA approved by the Commission in the Peoples Gas Rate Case. Ms. Jones' alternative was proposed in the Peoples Gas Rate Case and was rejected.

Q. Does Nicor Gas propose any additional modifications to Rider VBA?

A. Yes. In response to Staff Data Request BCJ 4.05, the Company will move the last two sentences contained with Section D to Section C. (*See* Nicor Gas Ex. 29.2, page 27). Further, in response to Staff Data Request BCJ 4.01, the Company will modify the reconciliation formula RA_1 to be consistent with the filing made by Peoples Gas on April 14, 2008. (Nicor Gas Ex. 29.2, page 26). Finally, in response to Staff Data Request BCJ 4.03, the Company will re-define the Upcoming Reconciliation Period from ten months to nine months. (Nicor Gas Ex. 29.2, page 25).

D. RIDER 29 – ENERGY EFFICIENCY PLAN

Q. What is the function of Rider EEP?

A. The function of Rider EEP is to compute, on an annual basis, a monthly charge per customer for applicable service classifications so that the Company may recover the incremental expenses for the development and implementation of the Company's Energy Efficiency Plan ("Plan"). The Company proposes to implement Rider EEP on a pilot basis for a four-year period.

Q. If Rider EEP is adopted by the Commission, Staff witness Ms. Jones recommends seven changes to the rider. (Jones Dir., Staff Ex. 3.0, 31:645-37:784). Does Nicor Gas agree with Ms. Jones' recommendations?

A. Yes. If Rider VBA is adopted by the Commission, the Company would agree to Ms. Jones' seven recommendations. The Company offers revisions to the originally proposed

Rider EEP (Nicor Gas Ex. 14.2, pages 140-143) to: (1) correct the dates associated with the filing date of the Effective Component; (2) correct the date of the first Reconciliation Period; (3) support the correction of the definition of the Carry Over Percentage; (4) incorporate the suggested revision of the Effective Component formula the first Plan Period of less than 12 calendar months; (5) enhance the description the RA2 component of the Reconciliation Adjustment formula; (6) revise the Reconciliation Adjustment formula to allow a Factor O; and (7) insert language in Rider EEP requiring the Company to add an annual internal audit report requirement, with specific tests. (Nicor Gas Ex. 29.2, pages 28-31).

Q. Does Nicor Gas propose any additional modifications to Rider EEP?

A. Yes. The Company offers to modify the way it references its annual reconciliation amount from dollars to cents, *i.e.*, from $0.01 to 1.0 cents. (Nicor Gas Ex. 29.2, page 30). In addition, in consideration of Staff Data Request BCJ 5.12, the Company proposes to add the phrase "less billed CSA revenues" to its EEP Revenues definition. (Nicor Gas Ex. 29.2, page 29).

E. RIDER 30 – QUALIFYING INFRASTRUCTURE PLANT

Q. What is the purpose of Rider QIP?

A. The Company's proposed Rider QIP will provide a mechanism to foster accelerated infrastructure replacement by allowing the Company to recover a return on, and depreciation expense related to, the Company's investment in certain qualifying future incremental cast iron main and copper service replacements. A QIP charge percentage

would be included on customer bills from April 1 through December 31 under all rate classifications except Rates 17, 19 and 21.

Q. If Rider QIP is adopted by the Commission, Ms. Hathhorn recommends four changes to the rider. (Hathhorn Dir., Staff Ex. 2.0, 21:487-93). Does Nicor Gas agree with Ms. Hathhorn's recommendations?

A. Yes. If Rider QIP is adopted by the Commission, the Company would agree to Ms. Hathhorn's four recommendations. The Company offers revisions to the originally proposed Rider QIP (Nicor Gas Ex. 14.2, 144-148, Sheet No. 83-83.4), which incorporates into Rider QIP the language suggested by Ms. Hathhorn with respect to the need for: (1) an annual docketed reconciliation proceeding and to include a Factor O for Commission ordered adjustments in the tariff formula; (2) a prudency and reasonableness of costs determination in such reconciliation proceeding; (3) an annual internal audit with specific tests; and (4) a provision to exclude uncollectible expenses from the calculation of the Gross Revenue Conversion Factor if Rider UEA is approved. (Nicor Gas Ex. 29.2, pages 32-33).

XII. CUSTOMER SELECT ISSUES

Q. After the filing of the Company's direct testimony, did the Company engage in settlement discussions with certain Intervenors?

A. Yes. The Company engaged in settlement discussions regarding issues raised by Interstate Gas Supply of Illinois, Inc. and Dominion Retail, Inc. (Customer Select Gas Suppliers, "CSGS") with respect to the Company's small volume choice program, Customer Select.

Q. Did the Company reach a settlement with CSGS regarding these issues?

A. Yes. The Memorandum of Understanding ("MOU") reached between Nicor Gas and CSGS with respect to the Customer Select program is attached as Nicor Gas Ex. 29.3 and, for purposes of this proceeding, is intended as a comprehensive settlement of all issues between Nicor Gas and CSGS.

Q. Pursuant to the MOU, what does the Company propose with respect to its treatment of the revenue requirement for gas in storage?

A. Nicor Gas proposes that Customer Select customers should receive a credit for gas in storage as part of the Transportation Service Credit ("TSC"), utilizing the methodology found in Exhibit A to the MOU.

This per therm credit for gas in storage for the Company's Customer Select customers is reflected in the tariff attached to the MOU as Exhibit B ("Rider 15, Sheet 75.1"). Nicor Gas requests that the Commission approve Rider 15, Sheet 75.1 and place it into effect contemporaneously with the other tariffs at issue in this proceeding.

Q. Pursuant to the MOU, what does the Company propose with respect to access to additional storage capacity during winter months for customer additions?

A. Nicor Gas proposes to calculate the Suppliers' end-of-month Storage Inventory Target Levels during the winter as a percentage of month-end storage capacity, which shall be calculated as the product of the Group's month-end MDCQ times 34 days of storage, which is the sum of 28 days plus 6 days of operational balancing capacity which shall be cycled, (as opposed to the current method which is a percentage of the preceding November 1 inventory). Nicor Gas further proposes that the current monthly percentages

related to the Storage Inventory Target Levels remain in effect and that the current Storage Purchase in Place/Cash-Out provision remains in effect.

Nicor Gas' proposal is reflected in the tariff attached to the MOU as Exhibit C ("Rider 16, Sheet No. 75.6"). Nicor Gas requests that the Commission approve Rider 16, Sheet No. 75.6 and place it into effect contemporaneously with the other tariffs at issue in this proceeding.

Q. Pursuant to the MOU, what does the Company propose with respect to operational balancing requirements?

A. Nicor Gas proposes to allow Customer Select Suppliers to cycle annually the additional operational balancing storage capacity of 6 times the Group's MDCQ effective as of the first May following the effective date of the tariff. Nicor Gas further proposes that the combined storage capacity of 34 times the Group's MDCQ will be the basis for calculating monthly storage inventory target levels and the daily storage injection capacity.

Nicor Gas' proposal is reflected in the tariff attached to the MOU as Exhibit D "Rider 16, Sheet No. 75.5"). Nicor Gas requests that the Commission approve Rider 16, Sheet No. 75.5 and place it into effect contemporaneously with the other tariffs at issue in this proceeding.

Q. Pursuant to the MOU, what does the Company propose with respect to the Customer Select monthly Account Charge?

A. Nicor Gas proposes to include the Account Charge in the base rates of all eligible customers (Rates 1, 4 and 5), and the accompanying reallocation of costs. Nicor Gas'

proposal is reflected in the tariff attached to the MOU as Exhibit E ("Rider 16, Sheet No. 75.3"). Nicor Gas requests that the Commission approve Rider 16, Sheet No. 75.3 and place it into effect contemporaneously with the other tariffs at issue in this proceeding.

Q. Pursuant to the MOU, what does the Company propose with respect to the Group Additions fee?

A. Nicor Gas proposes to eliminate the $10.00 Group Addition fee as it relates to switching from one supplier to another and these costs will be recovered through base rates. Nicor Gas' proposal is reflected in the tariff attached to the MOU as Exhibit E ("Rider 16, Sheet No. 75.3"). Nicor Gas requests that the Commission approve Rider 16, Sheet No. 75.3 and place it into effect contemporaneously with the other tariffs at issue in this proceeding.

Q. Pursuant to the MOU, what does the Company propose with respect to the number of days a customer has to select a new Supplier ?

A. Nicor Gas proposes to extend the number of days (from 45 to 120) a customer has to select a new Customer Select Supplier after returning to Nicor Gas from another Customer Select Supplier. Nicor Gas' proposal is reflected in the tariff attached to the MOU as Exhibit B ("Rider 15, Sheet No. 75.2"). Nicor Gas requests that the Commission approve Rider 15, Sheet No. 75.2 and place it into effect contemporaneously with the other tariffs at issue in this proceeding.

Q. Pursuant to the MOU, what does the Company propose with respect to providing mailing list?

A. Nicor Gas proposes to make available to all Customer Select Suppliers a residential customer mailing list. The list will include customer names and addresses, but not phone numbers. The list will exclude the names of customers who are on the Company's "Do Not Contact List." The Company will update the mailing list on a quarterly basis and provide it to Customer Select Suppliers at no charge.

Q. Does the MOU contemplate an ongoing dialogue with the CSGS?

A. Yes. It's fair to say the Company worked expeditiously and facilitated an open dialogue with CSGS in order to reach an accord on all its issues. Consistent with that spirit, Nicor Gas commits to meet with all interested Customer Select stakeholders and with Staff upon completion of this proceeding.

Q. Are there any remaining Customer Select issues to address?

A. Yes.

Q. Staff witness Mr. Sackett recommended that a new methodology be developed in this case to reflect a reduced allocation of Customer Select Balancing Charges ("CSBC") to Customer Select customers. (Sackett Dir., Staff Ex. 11.0R, 29:610-12). Is this appropriate?

A. No. As I indicated in my direct testimony (Nicor Gas Ex. 14.0, 25:550-552), Customer Select customers should be allocated the same pro-rata share (per therm charge) of Nicor Gas upstream capacity charges as those customers purchasing directly from the Company (Sales customers); and in fact they have been charged the same rate per therm for only the applicable upstream balancing service costs which are used for both Sales and Customer Select customers. As a matter of fairness to Sales customers, since these

services are used equally for both Sales and Customer Select customers both classes of customers should pay the same rate per therm. Moreover, this is one of the issues resolved in the Company's settlement with CSGS.

Q. How is the CSBC charge defined, calculated and collected?

A. As defined in Nicor Gas' Rider 6, Gas Supply Cost (Sheet No. 58):

> Customer Select Balancing Charge – Primarily a non-commodity related, per therm, gas cost recovery mechanism applied to all deliveries or estimated deliveries of gas to the Customer's facilities under the provisions of Rider 15, Customer Select. This charge is the usage level based counterpart to the NCGC, and excludes firm transportation costs for which the Supplier is directly responsible. The charge may also include costs associated with the purchase of supplies during periods of Operational Flow Orders necessary to maintain the reliability of the system. Revenues arising through the application of this charge will be credited to the NCGC, except for revenues associated with commodity costs during periods of Operational Flow Orders, which shall be credited to the CGC.

As defined above, the CSBC properly excludes the firm transportation costs for which the Supplier is responsible. Nicor Gas estimates that its total annual firm capacity and reservation charges in 2008 will be approximately $128,797,904 and approximately $68,371,545 of these costs are excluded from the CSBC calculation. It is important to note that only Sales customers, and not Customer Select customers, are being charged for these costs within Rider 6.

As illustrated in Mr. Bartlett's rebuttal testimony (Nicor Gas Ex. 19.4), only the appropriate upstream services which are used to balance the system for both Sales and Customer Select customers are included in the calculation of the CSBC. The calculation of the CSBC involves dividing the total forecasted cost for those services (approximately $60,426,359 in Nicor Gas Ex. 19.4) by the total forecasted annual Sales and Customer

Select therm deliveries (3,062,990,833 in Nicor Gas Ex. 19.4) resulting in a single monthly rate of approximately $.0197 per therm (about $.02 per therm), which both Sales and Customer Select customers effectively pay.

Under Rider 15, Customer Select, Customer Select customers are charged the CSBC multiplied by the customer's total use. Furthermore, as defined in Rider 6, revenues collected under the CSBC are credited back to Sales customers through Rider 6. Therefore, since all of the costs associated with these services are charged to Rider 6, recovery of the CSBC charge from Customer Select customers at the exact same rate per therm incurred by Sales customers enables both Sales and Customer Select customers to pay the same rate for the same services.

Q. Is it correct, as Mr. Sackett purports, that Customer Select customers are "balanced on a monthly basis" and should therefore not bear the full cost of the assets used to balance them? (Sackett Dir., Staff Ex. 11.0R, 25:599-605).

A. No. As Mr. Bartlett indicated, Nicor Gas must balance Customer Select customers deliveries and usage on a daily basis and that Nicor Gas utilizes its supply and upstream capacity (including DSS and NSS services which are included in the CSBC) to provide this service to them. (*See* Nicor Gas Ex. 19.0). From a billing perspective, Customer Select Suppliers are not required to balance their actual usage and deliveries until month end; however, Nicor Gas must operationally balance their deliveries and usage on a daily basis. Since Nicor Gas utilizes these assets to balance both Sales and Customer Select customers usage and deliveries in the same manner both should be charged the same rate per therm for these services.

Q. Mr. Sackett indicates that that Customer Select customers may make use of the off-system (CSBC) resources as a temporary source of supply and that they do not use the assets to bring in their annual requirements. On that basis, he asserts that Customer Select customers should not bear the full cost of using those upstream assets. (Sackett Dir., Staff Ex. 11.0R, 29:599-30:618). Please respond to these assertions.

A. As noted previously, Nicor Gas utilizes the CSBC assets for both Sales and Customer Select customers on a daily basis and not on a temporary basis. However, Nicor Gas has agreed in its settlement with CSGS to allow Customer Select Suppliers to annually cycle their operational balancing storage capacity of six (6) times the Group's MDCQ which when combined with the 28 MDCQ day storage allocation results in a combined total of 34 times the Group's MDCQ of storage capacity. These changes are reflected under the Storage Capacity section of Rider 16 – Sheet No. 75.5. Therefore, the resulting increased daily storage flexibility afforded by this change reinforces the Company's position that Customer Select customers should continue to pay the same rate per therm, as currently calculated in the CSBC charge, as Sales customers.

Q. Has Nicor Gas been collecting the CSBC charge as part of Rider 6 since the inception of the Customer Select program?

A. Yes. Since the inception of the Customer Select program in May of 1998, the monthly computation of the CSBC (and previously called the ABSC) has consisted of determining the single equivalent rate per therm that both Sales and Customer Select customers should both pay for the upstream assets utilized to serve them.

Q. In your opinion, should any change be made in how the CSBC costs should be allocated between Sales and Customer Select customers?

A. No. Since both Sales and Customer Select customers equally benefit from these services, they should receive the same per therm allocation of costs.

XIII. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes.